

Message Text

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INFO OCT-01 EUR-12 EA-10 NEA-11 ISO-00 SSO-00 INRE-00

NSCE-00 ICAE-00 CIAE-00 DODE-00 PM-05 H-01 INR-10

L-03 NSAE-00 PA-01 SP-02 SS-15 EB-08 OMB-01

AID-05 TRSE-00 COME-00 /095 W

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FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 7237

INFO AMEMBASSY KINSHASA IMMEDIATE

AMEMBASSY BONN IMMEDIATE

AMEMBASSY OTTAWA IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

AMEMBASSY TEHRAN IMMEDIATE

AMEMBASSY ROME IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AMEMBASSY JIDDA IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 11653

E.O. 11652: GDS

TAGS: CG, EAID, EFIN, PINS, MOPS

SUBJECT: BRUSSELS MEETING ON ZAIRE: OPENING

SESSION JUNE 13

SUMMARY: BRUSSELS MEETING ON ZAIRE OPENED JUNE 13
WITH ELEVEN GOVERNMENTS, IMF, IBRD AND THE EC
PRESENT. MORNING SESSION FOCUSED ON REPORTS BY
GOZ (MOBUTU PLAN) IMF (MAY MISSION ON STABILIZATION PLAN),
THE IBRD (STATUS OF ZAIRIAN ECONOMY), AND BELGIAN
REP MALDAGUE (ON REFORMS). U.S. INTERVENTIONS
UNDERScoreD GRAVITY OF CURRENT SITUATION IN ZAIRE
AND NEED FOR MAJOR REFORM IF RECOVERY IS TO BE
ACHIEVED. A WORKING GROUP WAS SET UP TO CONSIDER
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ZAIRE'S ESSENTIAL IMPORT REQUIREMENTS OVER NEXT
THREE MONTHS. FIRST SESSION CONCLUDED WITH APPARENT
CONSENSUS ON SERIOUSNESS OF ZAIRE'S CURRENT
CRISIS BUT IT REMAINS TO BE SEEN EXTENT TO WHICH
DELEGATIONS WILL BE ABLE TO AGREE ON LINKAGE OF
ASSISTANCE AND REFORM. END SUMMARY.

1. BELGIAN FOREIGN MINISTER SIMONET OPENED BRUSSELS MEETING WITH FIFTEEN MINUTE ADDRESS. HE TRACED GENESIS OF MOBUTU PLAN AND EFFECTS OF SHABA II ON ZAIRIAN ECONOMY AND SECURITY. SIMONET URGED DELEGATES TO CONSIDER BOTH EMERGENCY NEEDS OF ZAIRE AND LONGER TERM DEVELOPMENT REQUIREMENTS. EXCEPT FOR SAUDI ARABIA, ALL OTHER INVITEES WERE

REPRESENTED -- WITH FEW EXCEPTIONS AT TECHNICAL LEVELS: U.S., FRG, BELGIUM, CANADA, FRANCE, IRAN, ITALY, JAPAN, NETHERLANDS, UK, ZAIRE, IBRD, IMF, AND THE EC.

2. IN WELCOMING REMARKS, BELGIAN CONFERENCE CHAIRMAN ERNEMANN EMPHASIZED ALONGSIDE MOBUTU PLAN HIS GOVERNMENT'S DESIRE FOR A CONCERTED EFFORT TO PROVIDE ZAIRE EMERGENCY ASSISTANCE FOR THE IMMEDIATE THREE MONTH PERIOD: FOOD, MEDICINES, POL, SPARES, RAW MATERIALS.

3. ZAIRE CHIEF DEL BOKANA, IN FIRST INTERVENTION OF MEETING, DELIVERED LACKLUSTER REPORT ON STATUS OF MOBUTU PLAN. SPEAKING "IN THE NAME OF PRESIDENT MOBUTU AND THE EXECUTIVE COUNCIL" BOKANA THANKED THE GOB FOR COORDINATING THIS MULTILATERAL ECONOMIC EFFORT AND CONVENING THE TWO-DAY MEETING. HE RECALLED

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THE ZAIRIAN AND EXPATRIATE VICTIMS OF SHABA II AND TOOK POT SHOTS AT SOVIETS FOR ALLEGED KATANGAN SUPPORT. BOKANA TRACED RECENT ZAIRIAN ECONOMIC HISTORY HIGHLIGHTING FALL OF COPPER PRICES, MOBUTU'S EFFORTS THROUGH TWO IMF STABILIZATION AGREEMENTS AND SPEECHES OF JULY 1 AND NOVEMBER 25, 1977, AND LAMENTED THAT LONDON ACCORD HAS STILL NOT BEEN IMPLEMENTED. HE OUTLINED THE THREE BASES MOBUTU PLAN PLAN FORSEES FOR ECONOMIC RECOVERY: 1) MANAGEMENT REFORM; 2) ECONOMIC/FINANCIAL STABILIZATION; AND 3) INCREASED PRODUCTION. BOKANA CONCLUDED THAT ZAIRE IS COUNTING ON ITS FRIENDS IN ITS CURRENT CRISIS.

4. IMF. CHIEF DEL EDWIN BORNEMANN'S STATEMENT SKETCHED IMF STABILIZATION EFFORTS, INCLUDING THE MISSION HE LED TO ZAIRE IN MAY 1978. THE GOZ HAS DRAWN ABOUT SDR 200 MILLION FRDM FUND UNDER THE 1976 AND 1977 AGREEMENT, AND THE COMPENSATORY FINANCING AND THE OIL FACILITIES. ZAIRE IS ALSO LIKELY TO RECEIVE ANOTHER SDR 28 MILLION IN JULY 1978, FROM THE TRUST FUND, BORNEMANN SAID.

HIS MAY MISSION IDENTIFIED SEVERAL REFORM AREAS:

1) CURTAILMENT AND MORE RIGOROUS CONTROL OF BUDGETARY EXPENDITURE; 2) EXERCISE BY THE FINANCE MINISTRY OF FIRM AND EFFECTIVE CONTROL OVER EXPENDITURE ON "DONATIONS" (READ PRESIDENTIAL SLUSH-FUND) AND THE WAGE BILL; 3) IMPROVED MANAGEMENT OF FOREIGN EXCHANGE IN THE BANK OF ZAIRE IN PARTICULAR FULLER REPATRIATION OF EXPORT RECEIPTS AND A STRICT FOREIGN EXCHANGE BUDGET. BORNEMANN CAUTIONED THAT IMF RESOURCES ARE "INSUFFICIENT" AND ARE NOT DESIGNED FOR DEBT RELIEF OR EMERGENCY

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ASSISTANCE. HOWEVER ADDITIONAL FOREIGN EMERGENCY ASSISTANCE AND LONGER TERM SUPPORT WERE NECESSARY LEST THE BALANCE OF PAYMENTS DEFICIT PRECLUDE ECONOMIC RECOVERY IN ZAIRE. BORNEMANN CONCLUDED BY ASKING DONORS TO INDICATE THEIR LIKELY CONTRIBUTION SO THAT THE STABILIZATION PROGRAM MIGHT TAKE THIS INTO ACCOUNT.

5. IBRD. SPOKESMAN ANDRE GUE PAINTED A MUCH STARKER

PICTURE OF ZAIRE'S NEAR TERM PROSPECTS, CALLING ITS CURRENT STAGE "CRITICAL": 1) 1977 DOMESTIC CONSUMPTION WAS NO HIGHER IN REAL TERMS THAN IN 1970; 2) GOVERNMENT EXPENDITURES EXCEEDED REVENUES IN 1977 BY SOME 25 AND THE OVERALL DEFICIT WAS FINANCED THROUGH THE CONFIDENTIAL

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BANKING SYSTEM; 3) THE GAP BETWEEN IMPORTS AND EXPORTS REACHED ABOUT \$300 MILLION DESPITE A REDUCED LEVEL OF IMPORTS IN REAL TERMS; AND 4) A CONTINUED ACCUMULATION OF EXTERNAL PUBLIC AND PRIVATE DEBT, ARREARS LED TO FURTHER DETERIORATION OF ZAIRE'S CREDIT WORTHINESS.

GUE CRITICIZED THE GOZ FOR ITS MISMANAGEMENT WHICH HAD CREATED A "SELF-FEEDING PROCESS LEADING TO FURTHER REDUCTIONS IN PRODUCTION TRIGGERED BY A GENERALIZED SCARCITY OF LOCAL AND SUPPORTED SUPPLIES AND A CONTINUING HIGH INFLATION. TO FINANCE SOME VOLUME OF IMPORTS AS IN 1977, HE SAID, ZAIRE NEEDS \$200-300 MILLION IN FOREIGN AID ADDITIONAL TO THE \$250 MILLION IN CURRENT PROJECT PIPELINE -- A VOLUME TOO LOW TO ACHIEVE RECOVERY OR EVEN STABILIZATION. IN 1979 THIS WOULD RISE TO \$400 MILLION AND IN 1980 TO ABOUT \$900 MILLION. ZAIRE WILL ALSO HAVE TO MEET EXTERNAL DEBT OBLIGATIONS THROUGH 1978 AMOUNTING TO ABOUT \$1.2 BILLION, AND ZAIRE'S NEED FOR MASSIVE DEBT RESCHEDULING WILL CALL FOR COVERAGE OF DEBT SERVICE IN 1979 AND 1980 AS WELL AS INCLUDING GRACE PERIODS EXTENDING OVER SEVERAL YEARS, WITHOUT WHICH ITS DEBT SITUATION WILL BE MANAGEABLE AND RECOVERY UNREALISTIC.

IN CONCLUSION THE BANK CALLED FOR 1) STRENGTHENED EFFORTS TO REACH AGREEMENT WITH IMF ON A STABILIZATION PROGRAM; 2) A DETAILED BLUEPRINT FOR STABILIZATION AND RECOVERY; 3) MORE EFFECTIVE MOBILIZATION OF GOVERNMENT; AND 4) ADDITIONAL FINANCING GEARED TO QUICK DISBURSEMENT.

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ON GECAMINES GUE SAID THE BANK WAS PREPARED TO TAKE THE LEAD IN EVALUATING ITS MEDIUM AND LONG-TERM REQUIREMENTS AND TO CONSIDER FINANCING PART OF THESE. GUE APPEALED FOR "INTERNAL REFORMS BACKSTOPPED BY

EXTREMELY WELL-CONCEIVED AND COORDINATED TECHNICAL ASSISTANCE," IN AREAS OF FOREIGN EXCHANGE ALLOCATION, BUDGETARY CONTROL, CUSTOMS REFORM AND INVESTMENT SELECTION PROCEDURES. FINALLY, ECONOMIC DECISION-MAKING IN ZAIRE MUST BE DECENTRALIZED, PRIORITY-ORIENTED, ABOVE ALL, MADE "TRANSPARENT". CHAMBERS

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